

THE TRADING SYSTEM OF THE 21ST CENTURY

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Good afternoon. Thank you, Clyde, and thank you all.

The Economic Strategy Institute's annual conference is one of Washington's signature trade events. And it occurs this year at an ideal time.

In the months ahead, through the World Trade Organization's Third Ministerial Conference and the launch of a new Round of international trade negotiations, the foundation of the next decade's trade agenda will take shape. That in turn will shape the 21st century economy in which our businesses, farmers, working people and consumers live.

This afternoon, as the work begins, I would like to offer you some thoughts on the future we should seek for the trading system.

U.S. TRADE PHILOSOPHY

The goals we seek are clear. At home, opportunity and equity; scientific and technical progress; a rising standard of living together with a high quality of life. Abroad, a more stable and prosperous world economy; improving environmental protection and respect for core labor standards; a stronger peace. And a strong, rules-based trading system is essential to both.

At home, trade offers American farmers, businesses and workers larger markets. Almost 80% of world economic consumption takes place outside the U.S., and if we are to continue to grow and remain competitive in the future, Americans must have fair access to these markets. Likewise, living standards and economic efficiency require openness to fairly traded imports.

And abroad, a strong trading system helps increase world prosperity, advances the rule of law, provides an indispensable shield in moments of crisis, and contributes to international peace by giving nations stronger stakes in their neighbors' stability and prosperity.

These principles have formed the basis of American trade policy since the end of World War II. They are the foundation of the 275 trade agreements we have concluded since President Clinton took office. And they are the basis of an agenda for the next decade, ranging from integrating the quarter of humanity outside the trading system; to strengthening and reforming that system to make it more open, fair and responsive to the opportunities of the 21st century.

DEVELOPMENT OF THE TRADING SYSTEM

Let me begin, however, with the context: because to explain the role of the trading system in our future requires us to review the reason it exists today.

This takes us back to 1948, when 23 nations joined to form the General Agreement on Tariffs and Trade, or GATT. They did this, most immediately, to revive the western economies after the Second World War. But their decisions took place in the light of the experience of the 1920s and 1930s, when cycles of protection and retaliation helped create the unemployment and social tension which contributed so much to the political upheavals of that era.

The challenge the leaders of those days faced was to rebuild the relatively open trading world which had existed before the outbreak of the First World War in 1914 -- described so well by John Maynard Keynes in his Economic Consequences of the Peace:

“What an extraordinary episode in the progress of man was that which came to an end in August, 1914. The inhabitant of London could order by telephone the various products of the whole earth, and reasonably expect their early delivery upon his doorstep; he could at the same moment adventure his wealth in the natural resources and new enterprises of any quarter of the world ... and most important of all, he regarded this state of affairs as normal, certain and permanent, except in the direction of improvement.”

Events had proven it nothing of the sort. That era of growth and open trade depended on policy, and was undone by policy: the tariff hikes and colonial preference schemes of the 1920s, capped by the Smoot-Hawley Tariff in the United States, cut trade nearly 70% by 1934 and transformed the world into something like a series of island economies. By 1948, disintegration was complete: trade barriers divided the Allied economies; China left the world economy in the communist experiment; Russia was long gone; Japan and Germany had not yet returned.

The founders of the GATT drew the obvious lessons. For living standards and growth, trade is not a luxury but a necessity. In strategic terms, trade is an invaluable support to peace.

THE ACCOMPLISHMENT

Since then, eight separate negotiating Rounds have rebuilt a freer trading world.

The system has grown in membership, from the original 23 countries to today's 134 economies and 4.5 billion people. And it has grown in scope: tariffs remain central to its work, but are now joined by agreements on agriculture, services, sanitary and phytosanitary standards, intellectual property, technical barriers to trade, the Information Technology, Basic Telecommunications, and Financial Services agreements, as well as dispute settlement, oversight bodies for each agreement, and a forward work-program on newer issues.

As a result, for each WTO member, exports offer markets to farms and businesses, create the economies of scale that speed technical progress, and raise the wages of workers. Imports raise the standard of living for consumers -- especially the poor -- and let industries find the best price for inputs and compete more successfully. Since 1960 global trade has grown fifteen-fold. World economic production has quadrupled and per capita income more than doubled; this in turn provides families and governments with the resources to improve health, invest in education, protect the environment and advance other social goals.

In consequence, life has improved nearly everywhere in the world. World life expectancy has grown by twenty years. Infant mortality has dropped by two-thirds. Famine has receded from all but the most remote or misgoverned corners of the world. And daily life has been enriched in perhaps small but remarkable ways: oranges and green vegetables available around the world in midwinter; books and cars over the Internet.

And during the financial crisis of the past two years, the trading system proved its worth in another way. Today's enforceable commitments and contractual rules are vastly more resilient than that of 1914. In the worst financial crisis of the past half century -- with 40% of the world in recession, six major economies contracting by 6% or more, and the American trade imbalance likely to pass \$300 billion -- we at least so far have seen no broad reversion to protectionism.

While the crisis is by no means over, this has prevented enormous economic damage to our country and our farmers and working people. It has helped guarantee to affected countries the open international markets essential to their recovery -- and we now see signs of return to health, from buildups of inventory in Thailand's manufacturing sector, to rising numbers of Asian tourists in Hong Kong, revival of consumer demand in South Korea, and resilience in Brazil. And it has helped to avert the political tensions that can arise when economic crisis leads to trade conflicts.

The question, of course, is whether these accomplishments are enough. As the President's call for a new Round indicates, we believe they are not.

END OF THE COLD WAR

First of all, the basic work begun in 1948 -- the completion of an open trading system whose principles are accepted by all major trading economies -- is not yet done. Many Middle Eastern countries remain outside the system, as do many smaller island states and least-developed economies. And we face one challenge with truly profound implications: the response of the trading system to the end of the Cold War.

The trading system began, in essence, with the World War II allies and Latin America. Since then it has responded to two of the great political developments of the postwar era: the reintegration of Japan and Germany, and decolonization. The largest group now outside the system are the transition economies: China, Russia, Vietnam, Ukraine and other former Soviet

republics. They make up 18 of the 30 current applicants for WTO membership. Their entry and acceptance of the system's rules is essential: it will strengthen the WTO; strengthen peace by giving them greater interests in stability beyond their borders; and support domestic economic reform and sustainable growth in the transition countries. It is a task of immense gravity, technical difficulty and political complexity; but it is achievable – and that is clear because it is already well underway.

1. Progress Thus Far

Since its creation in 1995 the WTO has admitted five transition economies: Slovenia, Bulgaria, Mongolia, Kyrgyzstan and Latvia. We have completed bilateral negotiations with Estonia, and made significant progress with another six: Albania, Armenia, Croatia, Georgia, Lithuania and Moldova. Their governments -- some in the Balkans and the Caucasus operating under the most difficult of circumstances -- deserve immense credit for their progress so far.

From our perspective, each case has set important precedents and offered lessons on broader questions associated with integrating transition economies, including subsidies, transparency, transitions to market pricing and other issues. And each acceding nation has found the process a support to its domestic reforms. As Latvia's Foreign Minister Birkavs said to the Second WTO Ministerial Conference last year:

“the accession process and potential membership in the whole have very positively influenced and even accelerated the whole reform process.”

2. China's WTO Accession

We are now in the midst of negotiations with a much larger nation: the People's Republic of China, the world's largest nation and the largest economy in this group. This is a matter of immense importance -- for our economy and our working people, for our Asian trading partners, and for our national strategic interests.

Consider how damaging was China's economic isolation during the Cold War. Between 1949 and early 1980s, China's economy was almost entirely divorced from the outside world. The consequent loss of foreign markets and investment impoverished China at home, and meant that Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

With the reform in China beginning twenty years ago, this has begun to change. China is now one of the world's major exporters; its Asian neighbors are among China's markets and leading investors. The consequence of this may well be evident in China's response to the Asian financial crisis: where once China might have seen an opportunity to overthrow governments in Korea and Southeast Asia, it now sees a threat to its own economic interests, and has thus

contributed to IMF recovery packages and maintained currency stability.

But China remains insecurely and only opportunistically integrated in the global economy. Trade barriers remain high in agriculture and manufacturing; its service market is among world's most tightly closed. The principal victim of these practices is China itself: it faces inefficiencies in rural and urban economies stemming from lack of competition and state monopolies; the closure of markets in sectors like finance and telecommunications which slows technological progress; and a weakly developed rule of law threatens investment and long-term growth. At the same time, of course, China's trade barriers block American goods and services, and prevent its neighbors from taking maximum advantage of an economy which could be an engine of growth for the region and during this crisis.

These are the broad issues we take up in the WTO accession. Our work rests upon specific American commercial interests. But it also contributes to the entry of China into an international culture of open economies and the rule of law. It helps to create transparent laws and regulations; ensure access to administrative or judicial decision making; curb arbitrary bureaucratic power; and bring China toward adherence to accepted international standards of behavior. This will help strengthen the rule of law in China. It will help us achieve a more fair and open Chinese trade regime that creates opportunity and ensures fairness for Americans. And it will advance our larger goal of trade policies that support and complement our work to ensure Pacific security and advance universal standards of human rights.

In the past months, we have made very significant progress in China's WTO accession. We have completed our negotiations on agriculture and industrial products, and addressed many of our concerns in services. We have also made significant progress on subsidies, state trading, technology transfer, non-market economy dumping and other issues common to the transition economies. While time does not allow a comprehensive review – that is in any case available on our web site – we have reached a set of commitments that covers most of our concerns. This set of commitments has four features:

- First, it is broad. It covers agriculture, industrial goods and services; and unfair trade practices including quotas, other non-tariff measures, application of non-scientific agricultural standards, discriminatory regulatory processes, lack of transparency, export subsidies and other barriers to trade. It will address tariffs and other barriers at the border; limits on trading rights and distribution within the Chinese market; and restrictions on services.
- Second, it grants no special favors. It requires China to reduce its trade barriers to levels comparable to those of major trade partners, including some industrial countries.
- Third, it is fully enforceable. The commitments China has made in all areas are specific, and enforceable through our trade laws and WTO dispute settlement and other special mechanisms, including some of the Protocol or rules-based mechanisms.

- Fourth, its results will be rapid. The agreements on sanitary and phytosanitary standards concerning TCK wheat, citrus and meat are now in effect, lifting import bans of long duration. On accession to the WTO, China will begin opening its market from day one, in virtually every area. The phase-in of further broad concessions will be limited to five years in almost all cases; in many instances the transition ranges from one to three years.

The work is not yet done in either market access or the Protocol. As in all accessions, concluding it depends on the acceding government, and of course China must meet the concerns of our trading partners at the WTO as well. But the distance we have traveled opens the prospect of completing the work soon. And when it is done, within view will be the completion of the vision held by the founders of the GATT: a universal trading system which advances prosperity and the rule of law in all the world's major trading economies.

OPENING A NEW ROUND

This is a challenging agenda by itself; but today we must go further to improve the WTO and its rules as they stand today.

Since 1995, the WTO has proven itself a fundamental improvement over the GATT: it has created opportunities for growth, advanced the rule of law, and helped make sure the Asian financial crisis did not lead to a cycle of protection which would have further hurt affected nations and threatened world prosperity. And its balance of market access commitments and phase-ins give both developing and industrial countries confidence the system is generally fair.

But we all can see that it is by no means perfect. Our disputes with Europe on bananas and beef reveal weaknesses in dispute settlement which could erode its strength and threaten overall confidence in the system. And in a broader sense, we must take up a set of challenges whose resolution offers immense opportunities for further improvements in growth and the quality of life; but which if unattended may threaten confidence in the world economy.

The financial crisis has pointed up the need for transparent, pro-competitive regulation in services. Agricultural trade barriers, which remain very high, reduce world food security; and agricultural export subsidies impose especially unfair burdens on farmers in the poorest countries. The advance of science and technology has created new products, new services and new methods of conducting trade, notably through the Internet.

In broader terms, we note a sense in the developing world that poorer countries benefit less than they should from liberalization. Paralleling this is concern in many developed nations that policies to open trade and promote growth are advancing more rapidly than policies to protect the air, the water and the global commons, and defend children against sweatshops and other abuses. We see a growing reluctance by governments to talk about the benefit of imports. And -- certainly in America, and I believe elsewhere -- many people hold a perception, which is not entirely incorrect, of the WTO as an institution whose workings, especially in dispute

settlement, are opaque and inaccessible.

THE FUTURE AGENDA

Thus, if we do not improve the system, we are likely not only to lose opportunities but to see public dissatisfaction rise and the strength of the system erode as time goes by. And that is the context in which President Clinton called for a new Round.

We approach this task with some new advantages -- notably the stronger institutional structure of the WTO, and our consequent ability to conclude the very broad agreements on Information Technology, Financial Services and Basic Telecommunications without a formal Round. And so we envision a Round which uses this stronger structure to work in three separate dimensions simultaneously: ongoing results in priority areas, an accelerated negotiating agenda; and institutional reforms and capacity-building at the WTO.

1. Ongoing Results

The ongoing results would begin in the months leading up to the Ministerial Conference and at the event itself. They could include, for example, efforts to reach consensus on an agreement on transparency in government procurement, which reduces opportunities for bribery and corruption; and extension of the WTO's standstill on tariffs applied to electronic transmissions, so that development of trade over the Internet is not slowed by trade barriers. It can also include our work toward consensus on an "Information Technology Agreement II" which further ensures access for all countries to the most modern technologies; as well as progress toward the sectoral liberalization initiative begun in APEC and now under consideration at the WTO.

2. Accelerated Negotiations

Looking then to the negotiations which will comprise the Round, we are now consulting with Congress, our trading partners in Geneva, and American business, agricultural and other civil society organizations. These discussions will continue through the summer and early fall. But as a starting point, the negotiations should be manageable enough to complete within three years, and should include:

- Agriculture -- which offers the prospect of more prosperous rural societies, and lessened threats of hunger and malnutrition. Further reductions in tariffs, trade-distorting domestic supports and other barriers will strengthen food security by giving consumers more diverse sources of food. Eliminating export subsidies will help ensure market-based prices -- essential to consumers and farmers alike. And guarantees that producers can use scientifically proven biotechnology techniques will allow farmers and ranchers to raise yields and efficiency, protecting consumers and reducing pressure on land and water.

- Services, where deeper commitments to liberalization and national treatment can address some of the weak regulatory practices in law and finance which helped to spark the financial crisis, advance freedom of information by ensuring access to new telecommunications technologies, help to protect public safety by raising architectural and engineering standards, and facilitate commerce and growth by creating open, competitive distribution and transport systems.
- Industrial goods, where we can raise living standards and speed the advance of science by opening new high-tech sectors; reducing tariffs and nontariff barriers, and thus allow manufacturing industries and working people to take advantage of economies of scale and produce more efficiently.
- Government procurement, where a foundation in an agreement this year on transparency likely will yield further opportunities for cooperation.
- Intellectual property, where we will begin with the scheduled review of the Uruguay Round's TRIPs agreement, and consider whether we need go further to promote scientific advance, artistic creation and improved medicine.
- A forward work-program and/or negotiation on issues including how competition and investment policies help assure fair and open trade; how the WTO can promote pro-competitive regulatory principles in services; advance efforts against bribery and corruption; and address the need for safety nets as nations adjust to heightened competition.

3. Institutional Reform of the WTO

The final dimension is institutional reform. Broadly speaking, this would ensure public support for the WTO as an institution, strengthen its ability to support real-world commerce, and improve its cooperation with other international institutions. Here we would hope to take up:

- Trade facilitation, perhaps beginning with customs reform to reduce unnecessary paperwork and ease the flow of goods;
- Capacity-building in developing countries. This would include technical assistance to ensure that they can fulfill the commitments which help them export -- intellectual property enforcement, compliance with food safety standards, pro-competitive regulation in telecommunications and so on -- and which create more efficient domestic economies by developing the infrastructure of communications, information and finance.
- Coordination between the WTO and the international financial institutions, in a world where the separation of trade flows from financial policy has become entirely artificial and sensible trade policies can help to advance and complement financial stabilization.

- The intersection between trade and environmental policies: as shown by the WTO's recent High-Level Meeting on Trade and the Environment, a consensus among governments exists that trade liberalization can complement policies to ensure clean air, clean water and protection of our natural heritage, while promoting economic growth. This is a promise we must realize.
- The intersection between trade and labor: growth should be accompanied by elimination of exploitative child labor and respect for internationally recognized core labor standards. Closer cooperation between the WTO and the International Labor Organization would be a start.
- Finally, reform and openness in the WTO itself -- because the WTO, like domestic institutions, must be transparent and responsive to win public support. Here we seek practical goals: ensuring rapid release of documents, guaranteeing the rights of citizens and citizen groups can file amicus briefs in dispute settlement proceedings, seeking other methods for civil society to contribute to the work of the trading system, and making dispute settlement proceedings be open to public observers. In the interim, we have a standing offer to open any dispute panel involving the United States to the public, if our dispute partner agrees.

CONCLUSION: THE MINISTERIAL AND THE YEARS AHEAD

This is the work that begins with our role as host and Chair of the WTO's Third Ministerial Conference this fall. The Ministerial will be the largest trade event ever held in the United States, highlighting to the public the importance of the trading system to our current prosperity; and creating a consensus for the trade agenda of the next century.

An agenda which helps re-integrate the world by giving China, Indochina, Russia, Eastern Europe and the newly independent states their place in a prosperous, rules-based world economy.

Which speeds technical progress that can improve health, help protect the environment, ease commerce and stimulate artistic creation, scientific research and political debate.

Which advances the universal values of fairness, open government and the rule of law.

And which gives ordinary people more power to shape their lives, and offer their children better prospects still, than at any time in human history.

It is an extraordinary opportunity. And the work of making it reality begins this year.

Thank you very much.